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ANNEX: Spain after Franco

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LEBANON

Violence in Beirut yesterday took the form of small-scale fire fights between Muslim and Christian militiamen and sporadic sniping. All roads were again declared unsafe, because both sides were using mobile roadblocks as a means of kidnaping members of opposing groups.

Efforts to find a political solution are as faltering as ever. Phalangist leader Pierre Jumayyil has threatened to pull his right-wing organization out of the national dialogue committee, on the ground that attacks on Christian areas of Beirut were an effort to force the Christians to make concessions. Saib Salam, a former prime minister and a moderate Muslim leader, has warned that if reforms are not made soon, "the whole system will be swept away."

Kamal Jumblatt and other Lebanese leftists were in Damascus yesterday, meeting with Palestine Liberation Organization leader Yasir Arafat, Saiqa chief Zuhayr Muhsin, and Popular Democratic Front for the Liberation of Palestine leader Nayif Hawatmah. Jumblatt was scheduled to meet yesterday with Syrian President Asad.

On the economic front, the fighting is rapidly causing Beirut to lose status as the business center of the Middle East.

Some firms, like McDonnell Douglas and Bechtel Corporation, have already pulled up stakes; others, like Bank of America, First National City Bank, and General Motors, have evacuated employees and their families. No major firms, to our knowledge, are operating out of Beirut at full strength.

A clear cessation of hostilities probably would bring back most of the evacuated firms. There simply is no readily available alternative to the Lebanese capital as a Middle East business center. Athens is too far from the Middle East, Cairo is overtaxed and over-bureaucratized, and Amman, Kuwait, and other Gulf cities that would like to replace Beirut cannot match Beirut's communications network, highly trained work force, or housing and educational facilities.

If the fighting goes on, some companies are likely to consider controlling their Middle East operations from outside the region. Eventually, it may prove feasible to bypass Beirut altogether.

The impact of such a shift would be disastrous for Lebanon. Physical destruction and lost tourist and trade earnings are already estimated at some \$3.5 billion—nearly a full year's gross national product. A loss of earnings from financial services, transit fees, and other commercial services would turn Lebanon's usual trade surplus into a chronic deficit. Two thirds of the country's gross national product is drawn from its services, primarily banking, commerce, and tourism.

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PORTUGAL

The Portuguese government, as well as its Communist and far-left antagonists, appears to be bolstering its position in preparation for more confrontations that could come later this week.

The government announced on Monday that it had removed four district governors—in Lisbon, Braga in the conservative north, Castelo Branco in rural eastern Portugal, and Faro on the southern coast. The removals, one in each of the country's four military regions, suggest the government may be warning its opponents that it is prepared to exercise its authority wherever it is challenged. The action is the first step in fulfilling a promise made earlier by Prime Minister Azevedo that leftist local administrators who seized office after the April 25, 1974 coup would be replaced. The new governors, who will undoubtedly reflect the views of the present government, have not yet been named.

The government took another step on Monday to lessen the Communists' hold on the media. Libel proceedings were instituted against a Lisbon paper controlled by pro-Communist workers, following an attack on General Melo Egidio, head of the new military intervention force set up to restore military discipline and maintain public order. The paper had accused the general of murdering "dozens of Mozambicans" during a recent tour of duty in Africa.

Control of the media is critical at this stage because news reports appear to have aided key opposition groups by exaggerating their strength and importance. One such group, Soldiers United Will Win, according to Revolutionary Council member Vitor Alves, actually numbers only 300 or 400. This group has been principally responsible for inciting demonstrations opposing government efforts to restore military discipline.

To further the opposition's plans, it was announced on Monday that a companion workers' organization, Workers United Will Win, has been organized. The new group, which claims to represent workers from 23 corporations in the Lisbon area, advocates arming the workers and overthrowing the government in favor of a more revolutionary one.

In addition to the attack on General Melo Egidio, the opposition continues to criticize the commander of the Northern Military Region, General Pires Veloso. Veloso, whose attempts to maintain military discipline in his command have made him the focal point of anti-government demonstrations, has been accused of trying to undermine a compromise reached last week between rebellious troops in the north and army Chief of Staff Fabiao. The opposition's accusations could in fact have some basis, in light of reports that the government is displeased with Fabiao's compromise measures and may soon be replaced.

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As positions continue to harden, pro-government military figures have begun to zero in on the opposition. Captain Vasco Lourenco, a key member of the Revolutionary Council, has put the blame for insubordination in the military on the Communists and the far left. Colonel Jaime Neves, commander of the crack commando regiment that will form the backbone of the new security force, has referred to an opposition plot that will surely lead to armed clashes.

The chances for such clashes will increase later this week. On Thursday, the Communists and the far left are planning a major anti-government demonstration in Lisbon. On Friday, the findings of an inquiry into recent incidents of violence in Porto are due, and Saturday is the deadline set by Costa Gomes for turning in illegally held arms. According to press reports, the security forces said yesterday that not a single weapon had been surrendered in response to the appeal, which was issued four days ago.

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VIETNAM

The Vietnamese communists are attempting to exploit the return of the 1,600 refugees now en route from Guam to Vietnam to wage political warfare against the US and to embarrass Washington over its alleged mistreatment of refugees in the US. The communists' principal motive probably is to "settle accounts" with the US over the massive exodus of refugees last April that outraged and embarrassed the Hanoi leadership.

The main thrust of communist propaganda is that the US "tricked" thousands of Vietnamese into exile by "raising the scare of a bloodbath." Hanoi and Saigon claim that Washington has now been obliged to accept the "legitimate demand" of the Guam refugees to return home. The communists complain, however, that the US has denied its responsibility for the "crime" of creating the refugee problem and has decided unilaterally to return the 1,600 Vietnamese without obtaining "authorization" from the Saigon authorities.

The claim that this unilateral action by the US "violates Vietnam's sovereignty" raises the possibility that Saigon will refuse to allow the refugees to disembark unless the US acknowledges its "responsibility" for all the refugees and agrees to general arrangements for future repatriation. The communists appear to be claiming that many others now living in US "concentration camps" will request repatriation.

Despite their denunciation of the "unilateral" action of the US, the Vietnamese communists have thus far stopped short of any call for direct talks between Saigon and the US on the refugee question. They may, however, be tempted to do this, reasoning that considerable propaganda advantage could be derived from a US refusal to deal with Saigon.

The communists' apparent determination to bring the entire refugee question to a head was reflected in their warning Sunday to UN Secretary General Waldheim that they reject the US decision to return the refugees from Guam and that they will not be responsible for anything that might happen.

In what may be an attempt to contrast the alleged irresponsibility of the US and its disregard of the refugees' welfare with communist generosity and good will, Hanoi announced on Monday that the Provisional Revolutionary Government in Saigon will release Americans and other foreigners, most of whom have been denied permission to leave South Vietnam since the communist victory last April. Hanoi stated that the UN High Commissioner for Refugees has agreed to assist this repatriation, which "may be carried out in late October or early November."

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The timing of the release, however, raises the possibility that Hanoi will make the departure of the Americans and other foreigners conditional on a "satisfactory" acknowledgment by the US of its responsibility for resolving the general Vietnamese refugee problem.

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JAPAN

An ambiguous statement by Prime Minister Miki last week has again touched off speculation in Tokyo that a general election will be held soon, perhaps as early as December or January. Miki subsequently denied any intention of calling an election "at this time," a remark many also view as equivocal.

Election fever has been simmering since last summer. It has been fueled by opposition party calls for national elections, younger Diet members and would-be candidates who are already out campaigning, and the view of most politicians that Miki himself, despite his public statements, wants an election sooner rather than later. Miki assumed power as a compromise choice within the ruling Liberal Democratic Party last December and he needs an election—even one in which the party does only fairly well—to give him a claim to a popular mandate and improve his tenuous position.

Still, the Prime Minister and most conservative leaders recognize that without some upswing in Japan's economy, voter discontent could well damage the Liberal Democrats' electoral fortunes. The party also has serious money problems. It is deeply in debt—even its headquarters is mortgaged—and major fund-raising efforts appear to be just getting off the ground.

A wait-and-see attitude thus still prevails among most party leaders. But it could erode—especially if they conclude that the economy is unlikely to improve sufficiently by next spring, the last real possibility for an election. Indeed, economic projections over the next six months were recently revised downward.

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YUGOSLAVIA

President Tito may soon move decisively against his domestic opponents, with pro-Soviet, Stalinist elements his principal targets.

Widespread rumors in Belgrade claim that a major show trial of so-called Cominformists will take place in the near future. An East European diplomat has told the US embassy that one or two "prominent personalities" will be arrested for Cominformist activities.

Last week, the top party leadership met to discuss domestic subversion. The party simultaneously issued a stern warning in its weekly *Komunist*, both against unconscious supporters of Stalinism and those who actually "follow the road of national betrayal and counterrevolution." In the past, the latter charge has presaged very stiff punishment of dissidents.

The threat of a major purge has been growing since last summer, when Tito gave the internal security department heads unspecified "specific tasks" for the future. With the recent examples of Portugal and Spain presumably in mind, the 83-year-old President may well be determined to clear the slate—before it is too late—of those regime opponents hovering on the fringe of outright opposition.

In addition to Stalinist subversives—12 more of whom have reportedly been arrested—the likely candidates for arrest include supporters of Tito's former heir-apparent, Aleksandr Rankovic, and possibly a sprinkling of pro-Western liberals like Milovan Djilas.

The pro-Western dissidents would be included in the sweep for both domestic and foreign reasons. At home, Tito does not want any moves against Stalinists to raise the hopes of the liberal reformers he sacked in 1972 and 1973. Externally, Belgrade presumably wants to avoid a serious deterioration in relations with Moscow, already strained by differences over the European communist party conference preparations and improving Yugoslav-Chinese ties.

There is little doubt, however, that the main focus will be on real or potential domestic sources of Soviet influence. The Yugoslavs might even be tempted to include Vlado Dapcevic, an emigre exile who has had Soviet connections, in a show trial. Dapcevic reportedly was kidnaped by the Yugoslav secret police during a recent visit to Romania.

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ITALY

The Italian Socialist Party last week approved a platform designed to distinguish the party from both the Christian Democrats and the Communists and to reinforce its pivotal position between them. The platform was put together in strategy sessions held by the Socialist central committee to prepare for the party congress now scheduled for early February.

Socialist chief De Martino practically ruled out his party's return to full participation in the national government before the next parliamentary election, which must be held by the spring of 1977. In the meantime, the Socialists seem willing to continue their crucial parliamentary support for some kind of interim government, such as Prime Minister Moro's Christian Democratic - Republican coalition. Socialist support for Moro will be reviewed, however, after the passage of emergency anti-recession measures and the conclusion of talks between government and labor on major contract renewals.

In any event, the Socialists categorically exclude a return to the formula that has been the basis for most Italian governments since 1963—a center-left coalition dominated by the Christian Democrats. De Martino left the door open to renewed collaboration with the Christian Democrats after the next election, provided they accept Socialist proposals and agree to a mechanism that would obligate the Communists to support the government's programs in parliament.

The Communists' refusal so far to consider the latter idea—which is intended to minimize the advantages of their opposition status—has strained relations with the Socialists. While De Martino noted that the Communists had adopted a number of democratic policies in recent years, he put more emphasis on the contradiction between that trend and the Communists' continuing ties to Moscow. That was one of the reasons cited by De Martino in ruling out a Communist-Socialist alliance at the national level.

The Socialists also went on record against the "historic compromise"—Communist leader Berlinguer's proposal for an agreement between his party and the Christian Democrats. Berlinguer says the Socialists would be invited to participate in such an arrangement, but they fear it would relegate them to a marginal role in the Italian political life.

The Socialists, by adopting these policies, are attempting to apply the lessons they drew from the outcome and aftermath of the regional and local elections last June. The Socialists advanced only moderately in those contests while the Communists scored unprecedented gains—a development the Socialists attribute to their long association with the Christian Democrats in the government.

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At the same time, the Socialists' experience in the many local coalitions they formed with the Communists after the elections has revived the Socialists' fear of ultimately being absorbed by the stronger and better organized Communists. By keeping their distance from the Christian Democrats, the Socialists hope to compete on an equal footing with the Communists for the votes of dissatisfied Italians in the next election.

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WEST GERMANY

Five major West German economic institutes foresee about 4-percent real growth in West Germany's gross national product next year—slightly lower than the 5 to 6 percent Bonn has been projecting.

We believe their forecast is overly optimistic. New industrial orders are flat and economic activity remains depressed in West Germany's European trading partners.

In their semiannual forecast, the institutes argue that the amplitude and duration of the economic upswing hinge critically on private investment. Real investment has fallen for nine consecutive quarters through the first half of this year, and the institutes do not see much of a revival in 1976. Industry is operating at about 75 percent of capacity, and profits are shrinking.

Most of the institutes believe that wage increases of no more than 5 to 6 percent are a vital first step toward arresting the investment slump and achieving the predicted 4-percent growth. Such modest wage settlements would boost profits, if capacity utilization picked up sufficiently in coming months to yield big productivity increases. Iron and steel workers in the states of Rhineland-Westphalia and Bremen currently are asking for an 8-percent wage hike, and the institutes' report comes at a critical time in the negotiations.

Projections call for inflation to fall to 5.5 percent next year, compared with an estimated 6 percent in 1975. Exports and imports are expected to grow at about 12 to 13 percent in nominal terms, implying an even larger trade surplus than the \$20 billion estimated for this year.

The five economic institutes have erred on the side of optimism in each of their last three forecasts. This spring, for example, they called for a real growth of about 1 percent this year. The institutes now expect a fall of at least 4 percent. The economic institutes have tried to remove some of the rosiness from the government estimate while retaining an optimistic tone. In doing so, they avoid criticism by Chancellor Schmidt, who sees a favorable psychological climate as a key ingredient to economic growth.

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INTERNATIONAL MONETARY

Discussions of New York's financial plight dominated the meeting of central bankers at the Bank for International Settlements last week. The Europeans expressed concern that New York's problems may cause severe difficulties for the international banking community and may erode foreign confidence in US financial stability.

Foreign central bankers are concerned that the loss of confidence in New York's notes would spread to other US municipal issues and cause a decline of foreign confidence in US Treasury issues. They lamented the potential impact of the city's plight on the solvency of US banks and the stability of the US financial market. The Europeans cited New York's problem as one cause of the dollar's recent weakness.

In a separate development, the bankers discussed selling International Monetary Fund gold stocks but reached no conclusions. There was general agreement that ratification of new articles legalizing the sale of gold is as much as two years away. Paris stressed the need for concerted action to prevent gold sales from driving down the free market price. The Germans urged that the Fund's gold be sold even before ratification of new articles. The bankers will discuss the issue again when they meet next month.

Prospects for economic recovery in major industrial countries were also discussed. All participants thought that the turning point had been reached by late summer and that recovery is under way. None foresaw the implementation of additional stimulative policies in their countries in the near term.

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Annex**SPAIN AFTER FRANCO**

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Government spokesmen, probably in an effort to keep from the public the gravity of Franco's illness, continue to report that he is recovering. Similar efforts were made in 1974.

Franco's death—or complete incapacitation—will come at a time when the deep divisions within Spain are more evident than ever. For the moment, at least, the shock of his death—although certainly not unexpected—plus the Spanish sense of propriety and pride will probably overcome the divisions in the country sufficiently to permit the carefully planned transition to be effected largely as intended.

The succession law of 1969 stipulates that Prince Juan Carlos will become chief of state (king) within eight days after Franco dies or is declared incapacitated. In the interim, power will be assumed in Juan Carlos' name by a Regency Council composed of a senior member of parliament, a church official, and a military man. Juan Carlos also will inherit Franco's position as supreme commander of the armed forces, but in the king's case, exercise of this function is expected to be symbolic.

Juan Carlos will have neither the personal prestige nor the legal foundation to exercise the absolute power Franco has wielded for almost four decades. An annex to the Organic Law of 1967—one of seven Fundamental Laws which as a group comprise the constitution—prescribes that Franco's special powers will lapse with the implementation of the Law of Succession.

Unlike Franco, Juan Carlos must share power with others in the government, particularly the prime minister or "President of the Government." The Organic Law states that all decisions taken by the head of state must be countersigned either by the prime minister, another minister whose office is involved in the decision, the president of the Cortes (the legislature), or the president of the Council of the Realm, a 17-member senior advisory body. Despite such limitations, Juan Carlos will have more power than any other Western constitutional monarch.

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A Divided Establishment

A majority of highly placed Spaniards recognize that their society needs to be freer, but they are divided over how free it should be, and at what pace freedom should be introduced. Differences on these matters are spread unevenly over the main sectors of the establishment.

The church, for example, has been in the vanguard of those seeking to promote social and political change, so much so in fact that the Spanish episcopate barely qualifies any longer as part of the establishment.

The great bulk of the officer corps is conservative; a small percentage is ultraconservative. Most reports portray the military as interested primarily in maintaining order. There are indications, however, that some junior officers are talking more openly than heretofore about the merits of a sound democratic system. Organized political activity within the military is banned, but [redacted] some junior officers favor rapid liberal social change for Spain and are interested in the Portuguese example.

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Political figures, who make up another important segment of the establishment, have had very little experience in organizing in such a way as to appeal to a constituency. They have concentrated on developing close ties to Franco, who has been the source of all power.

Politics have been changing slowly since the authorization of political associations (quasi-parties) in January 1975. Two of the more significant associations are the Spanish Democratic Union, a moderate Catholic-oriented group under former cabinet minister Federico Silva Munoz, and the Union of Spanish People, a rightist group under the head of Franco's National Movement, Jose Solis Ruiz.

All members of the establishment, including bureaucrats, financiers, and industrialists, will want to maintain their privileges. They will all cooperate, therefore, with Juan Carlos and Arias to arrange an orderly transition.

Such people will soon disagree over what parts of Franco's system should be preserved and what should be liberalized. Their disagreements may make it easier for the illegal opposition to enter politics openly. The various political groups that make up the illegal opposition are more interested in dismantling Franco's system than in altering it.

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The Illegal Opposition

The absence of free political activity—elections, rallies, mass meetings—makes it difficult to estimate popular support for the parties that have existed illegally. It is apparent that they have some appeal among youth, intellectuals, and workers. It is also clear that the parties are divided. There are, for example, two national and three regional Christian Democratic parties and at least three rival Socialist parties.

The Spanish Communist Party, in organizational terms if not in numbers, is the strongest party in the illegal opposition. It exercises considerable influence in the labor movement because of its control of the Workers' Commissions. It has support in the universities and is said to have good connections in the media. The Communists have tried without much success to form a popular front of political parties, but they probably will renew their efforts.

The Spanish Communist Party has been led for many years by Santiago Carrillo, who makes his headquarters in Paris. He has maintained considerable independence from Moscow and, like the Italian Communists, strongly criticized the Soviet invasion of Czechoslovakia. These positions have caused considerable hostility between Carrillo and his Portuguese counterparts, who have always supported Moscow's policies.

Regionalism

It is reasonable to assume that pressures for regional self-rule will increase in the post-Franco period. The Basque people, who occupy four provinces in the north, and the Catalan, who live in four provinces in the northeast, will press hard for a greater voice in running their own affairs. The populations of both areas feel discriminated against culturally and economically, but this sentiment is especially strong—and better organized—in the Basque region.

Most Basques would be satisfied with greater autonomy rather than a complete break with Madrid. The Basque terrorist organization wants immediate and complete independence from Madrid, and it has used and will continue to use violence to achieve this goal.

Basque terrorists, together with members of the Antifascist Patriotic Revolutionary Front who are committed to the violent overthrow of the government, will be as serious a problem for Juan Carlos as they have been for Franco during the latter days of his rule.

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Foreign Relations

Although Spanish officials will be concerned primarily with the orderly transfer of power and the domestic effects of Franco's death, Spain's foreign relations cannot be ignored for even a short period of time. Madrid, for example, must still complete negotiations on the future of US bases in the country. Some Spaniards may now be tempted to hold out for more advantageous terms, but the majority will not want to alienate the US at such a time.

There will probably be no change in the post-Franco period in Madrid's decision to withdraw from Spanish Sahara peacefully if possible. Spanish officials probably will reinforce this point with Rabat to avoid any rash action on the part of those Moroccans who believe that Spain is preoccupied with the transfer of power.

Madrid's effort to pursue closer ties with Western Europe, set back sharply by the recent anti-Franco demonstrations abroad, is likely to meet with greater success. Most of Europe would be anxious to give Spain's new leaders a chance.

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